

**KINGMAN-NORWICH RECREATION COMMISSION
KINGMAN, KS**

**FINANCIAL STATEMENT
WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDING DECEMBER 31, 2014
(WITH SUMMARIZED FINANCIAL
INFORMATION FOR DECEMBER 31, 2013)**

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KINGMAN-NORWICH RECREATION COMMISSION

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board and Management
Kingman-Norwich Recreation Commission
Kingman, KS

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Kingman-Norwich Recreation Commission, a related municipal entity of Unified School District No. 331, Kingman, Kansas, as of and for the year ended December 31, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgement, including the assessment of the risks for material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by Kingman-Norwich Recreation Commission to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Kingman-Norwich Recreation Commission as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of Kingman-Norwich Recreation Commission as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-agency funds (Schedule 1, 2 and 3 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

The 2013 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedule 2 and 3 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2013 basic financial statement upon which we rendered an unmodified opinion dated July 14, 2014. The 2013 basic financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2013 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The 2013 comparative information was subjected to the auditing procedures applied in the audit of the 2013 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 basic financial statement or the 2013 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 comparative information is fairly stated in all material respects in relation to the 2013 basic financial statement as a whole, on the basis of accounting described in Note 1.



Daniel L. Drake, CPA
Daniel L. Drake, CPA, P.A.

August 6, 2015

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2014

<u>Funds</u>	<u>Beginning</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending</u> <u>Unencumbered</u> <u>Cash Balance</u>	<u>Add</u> <u>Encumbrances</u> <u>and Accounts</u> <u>Payable</u>	<u>Ending</u> <u>Cash</u> <u>Balance</u>
General Funds:						
General	\$ 2,000	\$ 440,511	\$ 372,456	\$ 70,055	\$ 6,497	\$ 76,552
Special Purpose Funds:						
Employee Benefits Fund	7,169	64,515	58,403	13,281	1,012	14,293
Total Reporting Entity	<u>\$ 9,169</u>	<u>\$ 505,026</u>	<u>\$ 430,859</u>	<u>\$ 83,336</u>	<u>\$ 7,509</u>	<u>\$ 90,845</u>
Composition of Cash:						
Checking Accounts						\$ 21,376
Savings						69,469
Total Reporting Entity						<u>\$ 90,845</u>

See Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

Notes to Financial Statement

For the Year Ended December 31, 2014

Note 1. Summary of Significant Accounting Policies

Financial Reporting Entity

Kingman-Norwich Recreation Commission is a related municipal entity of Unified School District No. 331. The Recreation Commission provides recreational services in and around Kingman and Norwich, Kansas. The Recreation Commission is governed by a five member board appointed by USD No. 331 and is a separate governing body. USD No. 331 levies the taxes for the Recreation Commission and the Recreation Commission has only the powers granted by statute K.S.A. 12-1928. The Recreation Commission cannot purchase real property but can acquire real property by gift.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in a regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

Regulatory Basis Fund Types

The following categories of funds comprise the financial activities of the Recreation Commission for the year ended December 31, 2014:

General Fund: This fund is used to account for all financial resources except those required to be reported in another fund.

Special Purpose Fund: This fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for the funds specified purpose. The Recreation Commission has a special purpose fund for Employee Benefits.

Note 2. Stewardship, Compliance and Accountability

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory the statutes provide the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of final budget on or before August 25th.

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

Notes to Financial Statement

For the Year Ended December 31, 2014

Note 2. Stewardship, Compliance and Accountability (continued)

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at the time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or a contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for capital project funds, trust funds, and certain special purpose funds. No such funds exist for the Recreation Commission.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Noncompliance with Kansas Statutes

K.S.A. 79-2938 prohibits expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Expenditures exceeded the adopted budget in the Employee Benefit Fund by \$5,548.

Note 3. Deposits and Investments

As of August 12, 2015 the Recreation Commission had no open investment funds.

K.S.A. 9-1401 establishes the depositories which may be used by the Recreation Commission. The statute requires banks eligible to hold the Recreation Commission's funds have a main or branch bank in the county in which the Municipality is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. As of August 12, 2015 the Recreation Commission has established a pledge security with Kanza Bank for \$70,000 for instances where deposits exceed the amount covered under FDIC insurance. The Recreation Commission has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Recreation Commission's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Recreation Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: State statutes place no limit on the amount the Recreation Commission may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Notes to Financial Statement
For the Year Ended December 31, 2014

Note 3. Deposits and Investments (continued)

Custodial Credit Risk- Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Recreation Commission's deposits may not be returned to it. State statutes required the Recreation Commission's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Recreation Commission has not designated a "peak period." All deposits are legally secured at December 31, 2014.

At December 31, 2014, the Recreation Commission's carrying amount of deposits was \$90,845 and the bank balance was \$95,750. The bank balance was held by Kanza Bank resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance, and none was collateralized with security held by the pledging financial institutions' agents in the Recreation Commission's name.

Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Recreation Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

Note 4. Defined Benefit Pension Plan

Plan Description: The Recreation Commission participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas Law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy: K.S.A. 74-419 and 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS are funded on an actuarial reserve basis. Kansas law states a limitation on annual increases in employer contribution rates. The state of Kansas is required to contribute the statutory required employers share.

Net Pension Liability. The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014 the net pension liability for KPERS was \$8,291,794,910. KPERS has determined the Commission's proportionate share of the net pension liability is \$69,652 as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Notes to Financial Statement
For the Year Ended December 31, 2014

Note 5. Long-term Debt

The Recreation Commission has the following Capital Leases as of December 31, 2014

Lighting Project: On May 1, 2009 the Recreation Commission entered into a long-term lease for the purpose of obtaining a sports lighting system for Riverside Park. The lease is an equipment lease purchase agreement with Kanza Bank. The lease allowed the Recreation Commission to purchase the equipment, subject to terms and conditions of the agreement in the amount of \$382,200. In May of 2013 the Recreation Commission modified the terms of the lease. The new lease agreement resulted in additional advances of \$26,208 to the outstanding balance and changed the interest rate from 5% to 4%. In addition, the life of the loan was extended and will now end on June 1, 2023 instead of May 5, 2019. Total interest paid for the year was \$10,790.

Equipment Lease: On December 9, 2013 the Recreation Commission entered into a short-term lease for the purpose of obtaining mower and tractor for use around the various Recreation Commission operated sites. The lease allowed the Recreation Commission to purchase the equipment, subject to terms and conditions of the agreement in the amount of \$19,000. No interest was paid in 2014.

Changes in long-term debt for the Recreation Commission for the year ended December 31, 2014 were as follows:

<u>Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beg. of Year</u>	<u>Add.</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>
Capital Leases						
Lighting Project, 4% interest, issued 5/1/2009	\$ 382,200	6/1/2023	\$ 278,918	\$ -	\$ 24,652	\$ 254,266
Equipment Lease, 4% interest, issued 12/9/13	19,000	9/9/2014	19,000	-	19,000	-
Total Long-Term	<u>\$ 401,200</u>		<u>\$ 297,918</u>	<u>\$ -</u>	<u>\$ 43,652</u>	<u>\$ 254,266</u>

Current maturities of long-term debt and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Lighting Project			
2015	\$ 25,619	\$ 9,706	\$ 35,325
2016	26,663	8,662	35,325
2017	27,749	7,576	35,325
2018	28,880	6,445	35,325
2019	30,056	5,267	35,323
2020-2023	115,299	8,468	123,767
Total	<u>\$254,266</u>	<u>\$ 46,124</u>	<u>\$ 300,390</u>

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Notes to Financial Statement
For the Year Ended December 31, 2014

Note 6. Other Long-Term Obligations from Operations

Other Post Employment Benefits: As provided by K.S.A. 12-5040, the Recreation Commission allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Recreation Commission is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Recreation Commission makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by federal government for this coverage. The premium is paid in full by the insured.

Compensated Absences: The Recreation Commission's compensated absence policy permits employees five sick days per year and two weeks paid vacation. Employees are allowed to carryover unused sick time, but must use vacation in the year it is awarded.

Note 7. Subsequent Events

Management has evaluated the effects of the financial statement of subsequent events occurring through August 6, 2015 which is the date at which the financial statements were available to be issued.

**REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION**

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2014

<u>Funds</u>	<u>Certified Budget</u>	<u>Adjustment for Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current year</u>	<u>Variance- Over (Under)</u>
General Funds:					
General	\$ 383,343	\$ -	\$ 383,343	\$ 372,456	\$ (10,887)
Special Purpose Funds:					
Employee Benefits Fund	52,855	-	52,855	58,403	5,548

See Independent Auditor's Report

KINGMAN-NORWICH RECREATION COMMISSION

Kingman, Kansas

General Fund

Schedule of Receipts and Expenditures, Actual and Budget

Regulatory Basis

For the Year Ended December 31, 2014

(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

		<u>2014</u>		<u>Variance</u>
	<u>2013</u>	<u>Actual</u>	<u>Budget</u>	<u>Over</u>
	<u>Actual</u>			<u>(Under)</u>
Receipts				
Taxes and Shared Receipts:				
Ad Valorem Property Tax	\$219,517	\$357,054	\$350,678	\$ 6,376
Reimbursed Expenses	34,542	56,819	45,780	11,039
Lease Proceeds	45,028	-	-	-
Interest	100	-	100	(100)
Net Pool Receipts	<u>21,592</u>	<u>26,638</u>	<u>28,000</u>	<u>(1,362)</u>
Total Receipts	<u>\$320,779</u>	<u>\$440,511</u>	<u>\$424,558</u>	<u>\$ 15,953</u>
Expenditures				
Personnel Services	136,961	135,627	\$137,320	\$ (1,693)
Contractual Services	23,605	12,884	21,500	(8,616)
Commodities	25,757	45,679	45,000	679
Capital Outlay	26,503	78,030	62,600	15,430
Recreation Programs	34,232	34,618	43,000	(8,382)
Interfund Transfer	5,000	-	-	-
Net Pool Expenditures	<u>27,406</u>	<u>31,791</u>	<u>33,000</u>	<u>(1,209)</u>
Pool Reimbursements	-	(22,881)	-	(22,881)
Lease Principal	18,319	43,652	24,614	19,038
Lease Interest	12,708	10,790	10,709	81
Miscellaneous	<u>2,576</u>	<u>2,266</u>	<u>5,600</u>	<u>(3,334)</u>
Total Expenditures	<u>313,067</u>	<u>372,456</u>	<u>\$383,343</u>	<u>\$ (10,887)</u>
Receipts Over (Under) Expenditures	7,712	68,055		
Unencumbered Cash, Beginning	<u>(5,712)</u>	<u>2,000</u>		
Unencumbered Cash, Ending	<u>\$ 2,000</u>	<u>\$ 70,055</u>		

See Independent Auditor's Report

KINGMAN-NORWICH RECREATION COMMISSION
Kingman, Kansas
Employee Benefit Fund
Schedule of Receipts and Expenditures, Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2014
(With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

		2014		
	<u>2013</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
	<u>Actual</u>			<u>Over (Under)</u>
Receipts				
Taxes and Shared Receipts:				
Ad Valorem Property Tax	\$ 22,901	\$ 64,515	\$ 60,000	\$ 4,515
Interfund Transfer	5,000	-	-	\$ -
Total Receipts	<u>27,901</u>	<u>64,515</u>	<u>\$ 60,000</u>	<u>\$ 4,515</u>
Expenditures				
Payroll Taxes	7,840	12,041	\$ 10,845	\$ 1,196
Retirement	8,632	11,253	5,800	5,453
Worker's Compensation Insurance	241	2,643	1,200	1,443
Health Insurance	1,489	27,056	35,000	(7,944)
Errors and Omissions	9	5,410	10	5,400
Total Expenditures	<u>18,211</u>	<u>58,403</u>	<u>\$ 52,855</u>	<u>\$ 5,548</u>
Receipts Over (Under) Expenditures	9,690	6,112		
Unencumbered Cash, Beginning	(2,521)	7,169		
Unencumbered Cash, Ending	<u>\$ 7,169</u>	<u>\$ 13,281</u>		

See Independent Auditor's Report